

VZCZCXRO0948
OO RUEHIK
DE RUEHTH #0246/01 0541408
ZNR UUUUU ZZH
O R 231136Z FEB 10
FM AMEMBASSY ATHENS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1617
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHIK/AMCONSUL THESSALONIKI 0079
RUEHTH/AMEMBASSY ATHENS

UNCLAS SECTION 01 OF 04 ATHENS 000246

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [ECIN](#) [EFIN](#) [PREL](#) [GR](#)
SUBJECT: GREECE: REFORMS, THE PUBLIC RESPONSE, AND POLITICAL
CONSEQUENCES

REF: A. 10 ATHENS 156; B. 09 ATHENS 2192

SUMMARY

¶1. (SBU) The GoG has begun making public further details on and introducing legislation to implement various commitments made in its updated Stability and Growth Program (SGP), including in the areas of public sector wage cuts, tax reform and pension reform. The public has seen this coming, as Greece's economic problems and the GoG's credibility gap have headlined the local and international media for the past three months. According to recent polls, Greeks are prepared to make the necessary sacrifices and back the government. The opposition New Democracy (ND) party generally supports reforms, but refuses to give PASOK carte blanche. Protests thus far, while disruptive, have been largely symbolic and have lacked widespread public support. If opposition to reforms increases, however, the center-left government may face increasing tensions between its younger, progressive members, who are pressing to take the difficult reform decisions, and older, populist elements that want to curry favor with PASOK's traditional socialist base. Brussels and EU capitals are pressing Athens to make more budget cuts. The question is how much more EU-imposed austerity Greece can tolerate and whether it balks. The EU's call for additional measures coming out of the February 15 EuroGroup and February 16 EcoFin meetings was not received well by the government or the public. END SUMMARY.

----- --
SPECIFICS ON THE REFORMS
----- --

¶2. (U) In a series of press conferences (see reftel A) and through the formal introduction of legislation to Parliament, the Greek government publicized this month the first set of measures aimed at meeting the deficit targets it has laid out in its updated Stability and Growth Program (SGP). In addition to a series of tax hikes (including a hike in the fuel tax; a special tax on big businesses and banks; and new taxes on capital gains, off-shore companies, and corporate profits) this first set of measures includes:

-- (U) A new incomes policy featuring an across-the-board freeze in public sector wages; a 10 percent cut in pay benefits; a freeze in

all public hiring for the year (with a partial exception in the health, education and law enforcement sectors); a 1.5 percent increase for public sector pensioners with pensions of up to 2,000 euro per month; and a ceiling on wages for heads of independent authority agencies and chairpersons of public sector enterprises. The incomes policy will be passed by the end of February, according to the GoG.

-- (U) A new tax bill that seeks to make the tax system fairer and to capture tax avoidance. The draft bill introduces a new tax scale with additional tax brackets starting at 18 percent for annual income between 12,000 and 16,000 euro and rising to a maximum rate of 40 percent for those declaring incomes above 60,000 euro per year. It grants all tax-payers a tax-free allowance of up to 12,000 euro annually, provided filers submit receipts for purchases of goods and services for a certain percentage of this amount, depending on one's income (e.g., in order to claim the 12,000 euro tax free deduction, one who earns less than 6,000 euro need not submit any receipts; one who earns between 6,000 and 12,000 must submit receipts totaling 10 percent of the tax-free allowance; one who earns between 20,000 and 40,000 euro per year must submit receipts worth 40 percent of the tax-free allowance, etc.). This measure is meant to work as an incentive to the tax payer to request receipts for any purchase or service rendered thus cutting down on extensive tax evasion practices by shop keepers and service providers. The draft bill abolishes all other special tax exemptions and places all sources of income, including those

ATHENS 00000246 002 OF 004

previously taxed under special rates, under the same tax scale. Finally, it introduces an annual property tax for real estate holdings (those valued at over 400,000 euro), including Church of Greece property that historically has enjoyed a tax-exempt status. The GoG has set a target of mid-March for passage of this new law.

-- (U) A package of changes to the country's pension system aimed at ensuring the system's viability in the coming decades. The pension plan focuses on ending voluntary and early retirement schemes by raising the average retirement age by two years (to 63 by 2015) and by equalizing retirement ages for men and women by 2013. In order to cut down on administrative expenses and to make the pension system more transparent, the GoG's reforms will permanently separate pension and healthcare systems, establish a single agency to manage pension funds' reserves and assets, and change the method of calculating monthly pension payments. The GoG plans to pass pension reform through Parliament by late April or early May, following a recently-launched dialogue with the public.

SETTING THE STAGE FOR AUSTERITY

13. (SBU) The government's measures have not come as a surprise to the public as Greece has faced three months of intense international attention that have seen the country's economic problems, and indeed the Greek government's credibility, become a lead story in newspapers like the New York Times and the Financial Times, as well as the favorite topic of conversation in political and economic analyst circles. During this same time period, the local media also have focused overwhelmingly on Greece's economic crisis. The stage for the severity of the reforms was set by the volley between the GoG and the EU throughout most of December and January, in which the GoG started the match by serving up a small set of modest measures like a wage freeze for higher salary earners (see reftel B), and the EU and markets returned by demanding

additional and deeper budget cuts. Prime Minister Papandreou's dramatic message to the Greek people on February 2 meant to drive home the message that drastic measures were necessary to stop the country's course to destruction (see reftel A). He called on all Greeks to participate in a common fight to protect the economy as one protects one's own home and family.

14. (SBU) Even before all the international attention, developments in the real economy did not leave any doubts as to the seriousness of the situation. According to traders' associations and chambers of commerce, 10,000 companies and enterprises were forced to close in Greece in 2009. Hundreds of downtown shops in Athens have closed, once-crowded cafes and restaurants are half empty, and the famous Greek nightlife exists only on weekends. Banks have tightened lending standards (credit growth slipped to 4.2 percent in December 2009 from 15.9 percent in December 2008), and Greek media are full of stories of people scaling back their spending, from retail to travel to major purchases like automobiles, and for the first time, paying doctors' bills in installments. The official unemployment rate increased to 10.6 percent (November 2009) from 7.4 percent in 2008, but the Confederation of Greek Workers claims that this greatly underestimates the true figure, which they claim is closer to 17 percent. Labor Minister Andreas Loverdos revealed in Parliament in mid-January that, although Greece's updated SGP projects 9.9 percent unemployment for 2010 and 10.5 percent for 2011 and 2012, the actual numbers will exceed 20 percent of the labor force, which could mean as many as one million Greeks without a job. Other indicators also show the depth of the economic crisis in the real economy. Greek exports dropped 17 percent in 2009, compared to the previous year; industrial production dropped 7.6 percent in December 2009, compared with the same month in 2008; and building activity fell by 28.1 percent in volume in January-November 2009, compared with the corresponding period in 2008.

THE PUBLIC'S RESPONSE: PESSIMISM,

ATHENS 00000246 003 OF 004

RESIGNATION & STRIKES

15. (SBU) All of these factors have contributed to a general feeling that the carefree days of generous salaries and easy borrowing have passed, and that the future looks dim and uncertain. Already Eurostat estimates that 20 percent of the Greek population lives under poverty levels, the highest rate in the Eurozone together with Spain. A European eurobarometer report publicized in early February revealed Greeks to be the most displeased Europeans regarding social protection in their country, the economic situation, the cost of living, and the functioning of public administration. Nonetheless, with the exception of a number of labor unions that have announced strikes in coming days -- particularly civil servants that will be the group most affected by several of the measures announced to date -- and farmers, who blocked national roads for weeks asking for more agricultural subsidies, public opinion seems to understand the need for austerity and backs the government. The majority of respondents in recent opinion polls supports the government's austerity program and showed comparatively little support for civil servant strikes or farmer protests. According to results of a weekly poll published on February 16 (conducted by polling firm ALCO Company), 60.7 percent of responders said the measures were in the right direction, 65 percent said the measures were fair and necessary while 63.7 percent blamed politicians for the serious crisis. However, 60.6 percent of the public also feels that the government should have acted sooner.

16. (SBU) Senior GoG officials have made it clear in meetings with Embassy officers that although most Greeks understand that sacrifices must be made, such acceptance is dependent upon the perception amongst citizens that reforms are socially just, meaning that the burden must be shared equally by all, and the special benefits of certain groups should not be protected at the cost of others. Civil servants with many special benefits, tax free allowances, and other advantages, which were not broadly known to the public prior to the GoG announcement that these would be cut back, have little public support. Part of the GoG's strategy is to pass the measures through Parliament as quickly as possible in order to minimize the lightning-rod effect ongoing debate over the measures can create. The GoG believes that as measures are passed, public strikes and protests will begin to die down. This theory, however, is already being put to the test, as each group that faces direct consequences of budget cuts and new taxes has begun mounting strikes and protests. Strikes have been called by taxi drivers, who are opposed to plans that will change the way they are taxed; customs officials, who don't want their pay supplements reduced by taxes; public servants who reject a pay freeze, and so on.

MAIN OPPOSITION: NO BLANK CHECK

17. (SBU) The main political opposition party New Democracy (ND) has pledged to support reforms, but has stipulated this does not mean a "blank check" for each proposed reform by the PASOK government. ND President Samaras has balanced his general support for the need for reforms with criticism that PASOK has not developed quickly enough a comprehensive strategy to confront the crisis. In recent days, and in response to the GoG's launch of a Parliamentary probe into economic policy during ND's term in office, Samaras has stepped up his criticism of the GoG's response to the crisis. On February 18 ND offered its own 23-point proposal to address the crisis, focused mostly on liberal reforms to the state-centered economy, reducing bureaucracy, and stimulating small business. Nevertheless, Post shares the assessment of many of its ND interlocutors that the party currently has limited credibility with Greeks and is in no shape now to seriously undermine or alter the GoG's program. Many Greeks blame corruption and mismanagement during ND's five years in power for getting the country into this dire straight, a view that Papandreou and Papakonstantinou have fostered while ignoring waste and abuse during the previous almost 20 years of PASOK governments.

ATHENS 00000246 004 OF 004

COMMENT: POLITICAL CONSEQUENCES?

18. (SBU) The EU's call for additional measures coming out of the February 15 Euro Group and February 16 EcoFin meetings was not received well by the government, the public, or the press. In a rare display of frustration with the EU following the EU Summit, the PM and Finance Minister George Papaconstantinou last week expressed disappointment with the EU's lack of clarity on a financial support package for Greece and made strong statements that additional measures would not be necessary. The PM went so far as to say that if Greece were any other country, the IMF would already be on the ground with a funded program. Some media commentators stated that the EU is forcing Greece to adopt an IMF-style package, but without the accompanying financial support. In an interview with Reuters on February 18, the Finance Minister said that Greece should resolve its problems, preferably within a

eurozone context, but he did not rule out seeking IMF assistance. That said, he also confirmed that the government is examining several scenarios to increase budget revenues, including, among others, an additional fuel tax hike that would be borne by all.

19. (SBU) At this point, it appears that most Greeks are willing to tighten belts and join the Prime Minister's call for "national consensus". It is important to note, however, that as of now, with the exception of the fuel tax increase, most measures have not affected the average person's pocketbook. One question moving forward is how much more can and will the people take before reaching their breaking point or, more importantly, before withdrawing support from the Papandreou government and its austerity program. Protests thus far, while disruptive, have been largely symbolic and have lacked widespread public support. Indeed, the Papandreou government benefits from the fact that labor unions are more sympathetic to PASOK than they are to ND, and the strikes probably would be more virulent if ND was still in power. If the number and duration of strikes escalates, however, the PASOK government is likely to face greater internal party tensions between its younger, progressive members or the technocrats, like Papakonstantinou, who recognize the need to show the resolve necessary to regain credibility with market participants and EU partners, and older, populist elements that fear failure to pander to PASOK's base will cost the party long-term support. Greece's EU partners so far have pushed "tough love" by pressing the GoG to implement more and more austerity. The question remains how much more the EU can pressure Greece to do before the GoG says no more and pushes back. Recent statements by the PM and Finance Minister vis-????-vis the IMF may be one attempt to do just that. END COMMENT.
Speckhard